

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 CIAE-00 DODE-00 PM-04 H-01
INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02
SS-15 USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00
XMB-02 OPIC-03 LAB-04 EPG-02 SIL-01 OMB-01 STR-04
CEA-01 AGR-05 /109 W
-----131754Z 051587 /44

R 131435Z JUN 77
FM AMEMBASSY COPENHAGEN
TO SECSTATE WASHDC 4602
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY HELSINKI
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
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SUBJ: BALANCE OF PAYMENTS AND INCOMES POLICY PERFORMANCE

REFS: (A) COPENHAGEN 3094; (B) COPENHAGEN 2223

SUMMARY: THIS CABLE EXAMINES DANISH BALANCE OF PAYMENTS AND
INCOMES POLICY PERFORMANCE. OUR TENTATIVE JUDGMENT IS THAT
THE RECENT GLOOMY PROGNoses BY THE COUNCIL OF ECONOMIC AD-

VISORS (CEA) ARE NOT NOW JUSTIFIED BY OBSERVABLE 1977 BALANCE OF PAYMENTS AND WAGE DEVELOPMENTS. IN ANY EVENT, THE CEA REPORT HAS PUT PRESSURE ON THE GOVERNMENT TO DEVISE NEW WAYS OF COPING WITH DENMARK'S CURRENT ECONOMIC DIFFICULTIES.
END SUMMARY.

1. TWO OF THE KEY CONCLUSIONS OF THE COUNCIL OF ECONOMIC ADVISORS' REPORT DESCRIBED IN REF A MERIT CLOSER ATTENTION. THE FIRST IS THAT DANISH BALANCE OF PAYMENTS WILL NOT IMPROVE THIS YEAR IN COMPARISON WITH LAST AND THAT NO IMPROVEMENT IS LIKELY BEFORE THE EARLY 1980'S. THE SECOND IS THAT THE DANISH WAGE SETTLEMENT (REPORTED IN REF B) WILL NOT KEEP WAGE INCREASES WITHIN THE SIX PERCENT LIMIT PRESCRIBED IN THE GOVERNMENT'S INCOMES POLICY.

2. WE SEE SEVERAL INDICATIONS THAT THE BALANCE OF PAYMENTS PICTURE CAN, THE CEA CONCLUSIONS NOTWITHSTANDING, SHOW SOME IMPROVEMENT IN 1977:

A. FIRST QUARTER 1977 PERFORMANCE WAS BETTER THAN IT LOOKS. WHILE THE QUANTITY RISE IN EXPORTS OF EIGHT PERCENT AND IMPORTS OF FIVE PERCENT (VS. FOUR AND EIGHTEEN PERCENT IN 1976) WAS NOT SUFFICIENT TO BRING ABOUT A SIGNIFICANT CHANGE IN THE BALANCE OF PAYMENTS, IT SHOULD BE NOTED THAT MARCH IMPORTS WERE UNREASONABLY LARGE. FURTHERMORE, INCLUSION OF APRIL FIGURES SHOWS IMPORT STAGNATION AND A CONTINUED RISE IN EXPORTS.

B. THE INCREASE IN IMPORTS OF AGRICULTURAL PRODUCTS SHOULD EASE OFF.

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C. IMPORTS OF BUILDING MATERIALS ALREADY SHOW A DECLINE FROM LAST YEAR.

D. BECAUSE OF WELL-STOCKED INVENTORIES AND MODEST GROWTH IN PRODUCTION, IMPORTS OF INDUSTRIAL RAW MATERIALS SHOULD FLATTEN OUT.

E. CAPITAL GOODS IMPORTS, HIGH DURING THE FIRST QUARTER, ARE LIKELY TO DECLINE.

F. AUTOMOBILE IMPORTS ARE EXPECTED TO BE LESS THAN DURING THE RECORD YEAR 1976, AND DURABLE GOODS IMPORTS SHOULD BE FLAT OR DECLINE MODESTLY.

3. TAKING ALL OF THE ABOVE INDICATIONS INTO ACCOUNT, WE SEE THE POSSIBILITY OF A DKR 3 BILLION (DOLS 500 MILLION) IMPROVEMENT IN THE 1977 BALANCE.

4. WHATEVER THE OUTCOME OF THE 1977 BALANCE MAY BE, THE DANISH FOREIGN EXCHANGE RESERVE POSITION IS FAIRLY COMFORTABLE. A COMBINATION OF GOVERNMENT AND PRIVATE BORROWING ABROAD HAS RESULTED IN A RECORD END-OF-FIRST-QUARTER RESERVES OF DKR 8,700 MILLION (DOLS. 1,450 MILLION). RESERVES ROSE BY ANOTHER DKR 3600 MILLION (DOLS. 600 MILLION) IN APRIL AND MAY.

5. AS WELL AS BEING GLOOMY ABOUT BALANCE OF PAYMENTS PROSPECTS, THE CEA HAS LOST FAITH IN THE ABILITY OF THE GOVERNMENT'S INCOMES POLICY TO KEEP WAGES DOWN TO A 9 PERCENT RISE IN 1977 AND 6 PERCENT IN THE YEARS TO FOLLOW. THE CEA NOW FORECASTS A RISE OF 11 PERCENT THIS YEAR, WITH 9 PERCENT IN THE LATER YEARS.

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6. WHILE CEA PESSIMISM MAY PROVE TO HAVE BEEN WARRANTED, ITS
JUDGMENT ON WAGE INCREASES SEEMS TO US AT THIS POINT PRE-
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MATURE FOR THE FOLLOWING REASONS:

A. THE CHIEF THREAT IN THE WAGE PICTURE IS DRIFT-TYPE
RISES. WHETHER THESE WILL EXCEED THE POSITED LIMITS IS
LARGELY A FUNCTION OF EMPLOYER WILL TO RESIST LABOR DEMANDS.
THUS FAR WE HAVE NO INDICATION THAT MANAGEMENT IS YIELDING.

B. THERE HAS BEEN A HISTORY OF RELATIVE MODERATION IN WAGE
INCREASES SINCE 1976.

C. UNIT COSTS HAVE NOT INCREASED MORE THAN THE OECD AVERAGE
BECAUSE OF UNUSUALLY HIGH PRODUCTIVITY GAINS.

7. IN THE LIGHT OF THE PRECEDING DISCUSSION OF THE BALANCE
OF PAYMENTS AND WAGE INCREASES, WE MAKE THE TENTATIVE JUDG-
MENT THAT THE CEA HAS CHOSEN TO EMPHASIZE THE DARKEST SIDE
OF FORECASTING POSSIBILITIES IN ORDER TO EMPHASIZE WHAT IS,
NO MATTER HOW LOOKED AT, A SERIOUS SITUATION AND TO REINFORCE
POLITICAL WILL TO TAKE MORE DRASTIC STEPS THAN CONTAINED IN THE
AUGUST 1976 COMPROMISE.

8. EVEN IF THE CEA REPORT DID NOT HAVE THE OBJECTIVE, IT HAS
NEVERTHELESS PRESSURED THE GOVERNMENT. A SPECIAL PARLIAMENTARY
SESSION HAS BEEN SCHEDULED TO BEGIN AUGUST 22 TO CONSIDER NEW
WAYS OF COPING WITH DENMARK'S ECONOMIC DIFFICULTIES.
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